FY21 Itemized Operating Budget Revised

Fiscal and Management Control Board
May 11, 2020
Mary Ann O’Hara
Agenda

1. Timeline & Overview

2. FY21 Itemized Operating Budget
   - Structural Assumptions/Considerations
   - Revenue and Expense Assumptions
   - Historical Revenue and Expenses
   - Itemized Budget
   - Initiative Prioritization
   - Budget Vote Language
   - Next Steps
FY21 Operating Budget

Operating Budget Timeline

- **February 24:** Management introduces FY21 Preliminary Budget to FMCB
- **March 9:** FMCB vote to release FY21 Preliminary Itemized Budget to MBTA Advisory Board
- **March 24:** Stay at Home Order - All non-essential businesses directed to cease in person operation
- **April 27:** Management presents updated FY20 Projection
- **May 4:** FMCB meeting to review budget
- **May 11:** FMCB vote to release the Approved Itemized Budget to MBTA Advisory Board
- **May 12:** MBTA Advisory Board Meeting
- **May 21:** Request special FMCB meeting for Final Budget Vote
- **May 28:** FMIS Upgrade goes live
- **June 15:** Statutory deadline for FMCB to approve FY21 Budget
- **June/July:** Revisit FY21 Operating Budget upon adoption of State Budget
Overview

• Overall objective for FY21 is for budget to support return to full FY20 service levels even while assuming substantially lower ridership and fares, thus ensuring that that social distancing can be sustained.

• While prioritization decisions need to be made now and over the course of the coming fiscal year, CARES funding will allow MBTA to support FY20 service levels, although safety headcount will have to be phased in depending on revenue availability.

• The Proposed Operating Budget does not require any increase in fares and supports elimination of cash/CharlieTicket surcharge (and transfers on the Fairmont Line) as part of Stages 1 and 2 of Fare Transformation.

• The Proposed Operating Budget is an initial budget, which we anticipate re-visiting after the State Budget is adopted and then quarterly and/or as events transpire.
Structural Assumptions/Considerations

- Medium- to long-term ridership recovery trends are uncertain due to COVID-19 impact
- Overtime costs will fluctuate depending on staffing and service level decisions
- Operating Expense excluding debt service CAGR (4.4%) have increased faster than Revenue CAGR (-8.3%) over 4 years
- New state-wide PFML benefit begins 1/1/2021
- Pension Expense is dependent on rate of return, employer contribution rate, and headcount
- Pre-Existing Headcount Related Structural Issues will be monitored
  - Bus Operator Turnover & Overtime
  - Police Hiring through Civil Service
  - Service Impacts stemming from required E&M training periods
Assumptions for FY21 Operating Budget

Revenue

- State Contract Assistance at FY20 funding level of $127M
- Sales Tax adjusted to Base Revenue Amount of $1,083M
- No change to fare structure proposed
- Reduction in Fare, Parking, Real Estate & Advertising revenue
- Ridership and fare revenue recovery, due to COVID-19, will be influenced by variety of factors:
  - Extent to which State and Federal (CDC) guidance and/or requirements reduce capacity
  - Customer perception of safety and willingness to use transit
  - Employer decisions and telecommute behavior
  - Changing traffic patterns and gas & parking price competition
- Federal Funding from the CARES Act available to support expenses
- Safety & Infrastructure Support Funds ($17M) and Capital Maintenance Fund Withdrawal ($10M) included in FY21

Revenue to support Safety Panel Recommendations
Assumptions for FY21 Operating Budget

**Expenses**
- Wages adjusted for annual collective bargaining, no furloughs or layoffs assumed
- COVID-19 Expenses:
  - Full year COVID-19 related expenses (Cleaning, PPE) approx. $30M estimated for FY21
  - Budget assumes FEMA reimbursement of COVID-19 related expenses through MEMA
- Contractual increases for commuter rail ($25M), other materials, services, supplies adjusted to reflect service level assumptions
- Utility and commodity expenses estimated and updated based on national market rates
- Pension employer contribution rate increase

**Debt Service**
- Debt is issued consistent with policy
- FY21 issuances estimated $400M - $520M (dependent upon capital program expenditures)
FY21 Ridership/Revenue Assumptions

- Percentages reflect a conservative ridership model based upon how much of the original FY21 budgeted amount will be collected.
- State Contract Assistance FY20 funding level assumed, review MBTA Operating Budget after passage of State Budget.
- Sales Tax assumed to be at BRA as per comptroller certification (3/6/2020) $1,083M.

**Note:** Fare Revenue percentages are based on the pre-COVID ridership projections as incorporated in the preliminary budget presented on March 9th.
Historical Revenue and Expenses

Capital Salaries paid out of lockbox in FY18 and FY19 while paid from operating expenses in FY20 and FY21.

Revenue
Expenses
Other OneTime Revenue
CARES Act Funding

2.142 2.169 2.211 2.111 2.363 2.363
2.015 2.061 2.211 2.111 2.363 2.363

FY18 - FY20 Headcount Increase

Operating Headcount
Capital Headcount

FY18A 5,971
FY19A 6,115
FY20 425
FY21 424

FY20 Actual 5,744
FY20 Actual 5,868
FY20 Projection 6,065
FY20 Projection 5,923

Available for Lockbox

FY18 127
FY19 108
FY20 0
FY21 0
FY21 Operating Budget

**Historical Hire, Promotion and Separation Data**

+27% increase in hiring and promotional activity year to date; COVID-19 impacts resulted in
-75% decline in hiring in April vs. previous monthly average.

Historical Hires, Promotions and Separations (July - April)

YTD hiring in FY20 thru 10 months has already exceeded the yearly total hiring for each of the last 5 years.
Preliminary Release of Itemized Budget

Recommended Initial Operating Budget

- Safety initiative is funded at 50% (151)
- Safety Department augmentation and infrastructure maintenance positions will be prioritized, such as:
  - Safety Dept Subject Matter Experts (+/- 20 positions, 13% of 151)
  - Signal, Track, and System Maintainers (+/- 80 positions, 53% of 151)
  - Other positions (+/- 51 positions, 34% of 151)
    - Quality Assurance, Transportation, and Vehicle Maintenance positions, Administrative
  - Position headcount are preliminary estimates and may vary based on operational need
- All other Initiatives delayed until FY22
- 204 positions eligible for backfill (out of 498)
- Retain FY20 hires already made as approved in December 2019 by the FMCB in the following areas:
  - Safety & Infrastructure Support
  - Safety Panel Recommendations
  - Fare Transformation
  - Rail Transformation
  - Bus Transformation


<table>
<thead>
<tr>
<th>Revenue</th>
<th>FY21 Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fare Revenue</td>
<td>187.8</td>
</tr>
<tr>
<td>Own Source Revenue</td>
<td>41.4</td>
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<tr>
<td>Non-Operating Revenue</td>
<td>1,423.9</td>
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<tr>
<td><strong>Total Revenue</strong></td>
<td><strong>1,653.1</strong></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Wages, Benefits and Payroll Txes</td>
<td>823.4</td>
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<tr>
<td>Non-Wage Expenses</td>
<td>948.0</td>
</tr>
<tr>
<td><strong>Total Operating Expenses</strong></td>
<td><strong>1,771.4</strong></td>
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<tr>
<td>Debt Service</td>
<td>523.5</td>
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<tr>
<td><strong>Total Expenses</strong></td>
<td><strong>2,294.9</strong></td>
</tr>
<tr>
<td>Net Revenue/Expenses</td>
<td>(641.8)</td>
</tr>
<tr>
<td>Capital Salaries</td>
<td>(66.4)</td>
</tr>
<tr>
<td><strong>Net Operating Budget Revenue/Expenses</strong></td>
<td><strong>(708.2)</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>One Time Revenue</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>FY21 CARES Act Drawdown</td>
<td>577.0</td>
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<tr>
<td>FY20 Rollover</td>
<td>76.1</td>
</tr>
<tr>
<td>FEMA Reimbursement</td>
<td>30.0</td>
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<tr>
<td>Semi-Restricted Funds</td>
<td>17.0</td>
</tr>
<tr>
<td>Capital Maintenance Fund</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Total One Time Revenues</strong></td>
<td><strong>710.1</strong></td>
</tr>
</tbody>
</table>

| Net Rev/Exp Including One Time Revenue       | 1.9         |
Preliminary Budget Vote for Today

• That the General Manager is hereby authorized and directed to submit the Preliminary FY21 Itemized Budget, in the name and on behalf of the Authority, to the MBTA Advisory Board; and

• That following the Advisory Board review, a Final FY21 Itemized Budget will be submitted to the Fiscal Management and Control Board no later than June 15, 2020 in accordance with section 20 of chapter 161a of the Massachusetts General Laws as amended by chapter 56 of the acts of 2020
Next Steps

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Appendix
CARES Act Refresher – Provisions of Federal Stimulus

• Feds passed the CARES (Coronavirus Aid, Relief and Economic Security) Act with $25 billion in emergency grants available to mass transit agencies

• FTA is required to apportion the funds within 7 days of enactment - $884M anticipated for Boston region
  • MBTA estimated to receive $827M for FY20 and FY21 COVID Impacts

• Statute covers loss of revenue and operating expenses including but not limited to:
  • Operating costs to maintain service
  • Lost revenue due to the coronavirus public health emergency
  • Purchase of personal protective equipment
  • Paying administrative leave of operations personnel due to reductions in service and payroll costs for staff staying home on administrative leave

• Grants are eligible for a 100% federal cost share; no local match required, timing receipt of grant funds 60+ days
• MBTA put in grant application last Wednesday; DOL certification of grant application expected on Friday; expected to start drawing down funds in June
Service Level Assumptions

Each FY21 budget scenario supports a full return to FY20 regular service levels.

- Future ridership demands and patterns remain uncertain but MBTA needs to provide full capacity to safely serve smaller ridership while enabling social distancing.
- In order to support a safe and successful transition to full service as a phased reopening of the economy occurs, the Authority has:
  - Begun developing emergency service level policies that will guide future schedules balanced with workforce availability.
  - Service level planning will focus on Operational flexibility while maintaining a core level of service to meet variable ridership patterns.
  - Key areas of focus will be balancing social distancing (vehicle crowding standards) with peak ridership demands.
  - COVID-19 cleaning, safety, and PPE protocols to continue.
FY21 Monthly Ridership/Fare Revenue Models

FY21 Fare Revenue Sensitivity Analysis
Inflection points depend on external medical, community and economic factors

- Model A (322M): Gradual ridership return in Fall 2020 followed by sharp ridership buildup to new steady state in Winter 2020
- Model B (292M): Social distancing extended into Winter 2020 followed by gradual buildup to new steady state
- Model C (136M): "Extended" long-term social distancing protocols leading to reduced ridership and economic activity
- Model D (198M): Social distancing protocols relaxed in Spring, small summer uptick, concern about possible COVID-19 resurgence in Fall/Winter keeps fares flat before gradually building up to new steady state
- Model E (401M): "Steady Improvement" 10% increase in ridership every month until reaching new steady state in March

FY21 March 9th Budgeted Revenue ($711M)
FY21 Initiative Prioritization Sequence

- As fare revenue improves, available funding will be prioritized to reflect FMCB priorities as of March 9th.
- 151 additional Safety Panel Recommendation positions are included in the FY21 Budget.
- Safety Department augmentation and infrastructure maintenance positions will be prioritized, such as:
  - Safety Dept Subject Matter Experts (+/- 20 positions, 13% of 151)
  - Signal, Track, and System Maintainers (+/- 80 positions, 53% of 151)
  - Other positions (+/- 51 positions, 34% of 151)
    - Quality Assurance, Transportation, and Vehicle Maintenance positions, Administrative
  - Position headcount are preliminary estimates and may vary based on operational need
- As fare revenue improves, first $22.2M of additional revenue will be prioritized for remaining Safety Panel Recommendations.
- After Safety Panel Recommendation funding needs are fulfilled, next $5.1M in available revenue prioritized to Other Operational Initiatives.
- After Other Operational Initiative funding needs are fulfilled, next $1.6M in available revenue prioritized to PFML.
- After Budget Priority funding levels are restored to proposed levels from March 9th, subsequent revenues allocated to Policy Choices Made and Policy Choices to be Made.
## Safety Panel Recommendation Headcount Prioritization

<table>
<thead>
<tr>
<th>Department</th>
<th>Hires in FY21</th>
<th>Hires in FY22</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>System Maintenance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maintenance of Way</td>
<td>5</td>
<td>19</td>
</tr>
<tr>
<td>Power Systems Maintenance</td>
<td>25</td>
<td>0</td>
</tr>
<tr>
<td>Signals &amp; Communications</td>
<td>18</td>
<td>11</td>
</tr>
<tr>
<td>Transit Facilities Maintenance</td>
<td>32</td>
<td>53</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>80</td>
<td>83</td>
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<tr>
<td><strong>Other Departments</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Safety</td>
<td>20</td>
<td>0</td>
</tr>
<tr>
<td>GM</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>23</td>
<td>0</td>
</tr>
<tr>
<td><strong>Transportation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bus Transportation</td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td>Heavy Rail Transportation</td>
<td>1</td>
<td>20</td>
</tr>
<tr>
<td>Light Rail Transportation</td>
<td>1</td>
<td>29</td>
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<tr>
<td><strong>Subtotal</strong></td>
<td>20</td>
<td>70</td>
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<tr>
<td><strong>Other Transit Services</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COO - Administration &amp; Staff</td>
<td>2</td>
<td>0</td>
</tr>
<tr>
<td>OCC &amp; Training</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Security Department</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>10</td>
<td>8</td>
</tr>
<tr>
<td><strong>Vehicle Maintenance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bus Maintenance</td>
<td>7</td>
<td>1</td>
</tr>
<tr>
<td>Rail Maintenance</td>
<td>11</td>
<td>20</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>18</td>
<td>21</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>151</td>
<td>182</td>
</tr>
</tbody>
</table>

*Note: Position headcount are preliminary estimates and may vary based on operational need*
FY21 Operating Budget

Fare Transformation Customer Journey

Customers will see improvements rolled out in five stages

1. Key frustrations addressed
   - 2020
     - Tap on to Fairmount Line using my Charlie Card
     - Get a new Charlie Card from a location in my community
     - See fares being collected consistently on Commuter Rail using gates at terminal stations
     - See fewer subway gates out of service or in need of repairs
     - Take advantage of the new fare options being piloted

2. Easier to get a Charlie Card
   - 2021
     - Get a new Charlie Card from a vending machine at any subway station
     - Apply for or renew a reduced fare pass more easily (for seniors, youth and persons with disabilities)
     - Pay the same fare regardless of whether I use a Charlie Card, Charlie Ticket or pay with cash

3. New ways to pay
   - 2022
     - Tap using my contactless credit card, Apple Pay or Google pay on the Orange Line, Green Line, and select bus routes
     - Participate in a pilot and be the first to have the new Charlie Card and mobile app
     - Board on the rear door on at the busiest stops on select bus routes
     - Get a Charlie Card and reload at a growing number of retailers

4. Faster buses and Green Line trains
   - 2023
     - Tap using my mobile device, contactless credit card, or new Charlie Card on all bus and subway routes
     - Board at any door on buses and Green Line trains
     - Download the Charlie mobile app to view my balance and reload on the go
     - Get a Charlie Card and reload at many bus stops and even more retail locations

5. Seamless payments on all modes
   - 2024
     - Use the same card to tap no matter where I travel
     - Tap on and transfer between all MBTA modes (including Commuter Rail, ferry, subway and bus)
     - My employer has new tools to manage the pass I get through work and I have self-service options to manage my own account
     - See improvements to MBTA services overall, stemming from use of better ridership and revenue data
Package of Tariff Changes Will Enable Early Improvements

<table>
<thead>
<tr>
<th>Customer improvements...</th>
<th>...require tariff changes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Launch CharlieCard readers on Fairmount Line</td>
<td>1. Discounted transfers between Fairmount Line, bus, and subway using new CharlieCard readers</td>
</tr>
<tr>
<td>Eliminate differential between CharlieCard and CharlieTicket/cash fares</td>
<td>2. Youth Pass eligible for half-price Zone 1A tickets at ticket windows and onboard trains</td>
</tr>
</tbody>
</table>

Staff will present Title VI Equity Analysis on these tariff changes on May 21 along with official vote on these changes.